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BOOK REVIEWS AND NOTICES

Outlines of Economics. Third revised edition. By R. T. ELY, T. S. ADAMS, M. O. LORENZ, and A. A. YOUNG. New York: The Macmillan Company, 1916. Pp. xiii+769.

The present edition of this standard text has been revised throughout with evident care and with a view to improving the arrangement and form of expression, bringing the material to date, and keeping the whole as compact as possible. The work of pruning and condensation must have been quite courageous. The chapter on "Business Organization" has been enlarged, including discussions of the business unit in accounting and unfair competition. A brief account of the Federal Reserve System is included in the chapter on "Credit and Banking," and the succeeding chapters on "Other Problems in Money and Banking" and "International Trade" are enlarged, as is also the introductory chapter on "Distribution" and the chapter on "Interest." A new chapter on "Labor Legislation" has been added, and the chapter on "Insurance" has been enlarged ten pages to make room for a brief survey of social insurance, including workmen's compensation, sickness insurance, old-age insurance, and unemployment insurance.

The history of economic thought, formerly occupying Book IV, has been promoted to an appendix. The section on the "Relation of the State to Industry" has been broken up and the chapters on the "Necessity of State Activity" and the "Economic Activities of Municipalities" have been omitted, some of the material being salvaged elsewhere. The other chapters in this part are somewhat incongruously annexed to the subject of distribution.

In judging a work of this character the reviewer is at a disadvantage, in that he has not used the book in the classroom, and this fact makes it peculiarly difficult to judge the pedagogical value of the many detailed changes that appear in the third edition. Therefore this review will for the most part treat the book as it stands and address itself chiefly to matters of doctrine and to the broader strategy of arrangement and emphasis rather than to the minor tactics of the particular revisions that have been made. It goes almost without saying that, from the standpoint of the prevailing standards of doctrine, content, and presentation, only minor criticisms could be made of what is probably the best book

of its class on the market. Such adverse comment as these pages contain may be taken as a bit of mildly non-conformist controversy applying somewhat to a school of texts rather than as a disparagement of the merits of this particular example.

The volume now stands divided into three "books." Book I prepares the way with a discussion of economic institutions and evolution; Book II covers the subjects of consumption and production, value and exchange, and distribution; and Book III is devoted to public finance. Book II contains twenty-four chapters out of a total of thirty-four, and gives an excellent expression of the marginal-utility and marginal-productivity economics, together with such topics as labor problems, insurance, transportation, agricultural problems, and socialism.

This arrangement, reputable as it is, has a serious disadvantage. The discussion of production—which is defined so broadly as properly to include all useful services—is separated from the discussion of the institutions of property and contract which guide and direct it and determine what utilities it is profitable for private business enterprises to produce and what disutilities cannot be imposed without compensation. It is still farther separated from the discussion of public expenditures, which contains an extremely significant part of the theory of production in the typical modern text. For it is only here that we find a study of the economic nature of the productive services that public expenditures support, together with the reasons why they are set apart from the services that are left to private enterprise to furnish. This study, properly handled, sheds floods of light on the adequacy, limitations, and proper sphere of private enterprise as an agency of social production. One is tempted to say that this is the most significant part of the theory of production, partly because it is the least obvious, and partly because it throws most light on questions of public policy. The result of isolating it is a treatment which the reviewer cannot but feel is sterile by comparison with what might be done if these three topics, and possibly some others, were integrated into a unified study of the organization of economic efforts and useful services. Production, in the broad sense of the creation of utilities, includes all these topics, together with the active work involved in the creation and guidance of desires and their translation into effective demands, both for consumable products and for desirable conditions of work. Therefore, when a book defines production so broadly as to include all useful activities it is undertaking an obligation which is far from being fulfilled by the customary formal treatment of the creation of vendible form, time, and place utilities for the gratification of pre-existing wants, as carried on in private industry.

Various things contribute in a secondary way to this inadequacy of treatment. The assumption (p. 28) that production is for the gratification of *pre-existing* wants lends itself to assuming that private gain can be had only through increasing the sum total of human gratifications, with the exception of monopoly, fraud, theft, gambling, gift, and inheritance (p. 118). The need of constant control of competitive practices by law and morals is itself a contradiction of this, but the contradiction is camouflaged by speaking of these forms of control as raising the "ethical" level of competition, thus impliedly translating all these various profitable disservices out of the economic sphere into the ethical and avoiding the necessity for an analysis of their economic character. And yet, lacking such an analysis, how can ethics pass an intelligent judgment? Another contributing factor is the tendency to treat subjects such as the sphere of public production and public expenditures, prices or fees for public services versus free distribution, control of competitive practices, etc., from a standpoint which is inclined to accept existing law and practice as in some sense a standard. The work is pictured as in continued progress, and some inquiry is made into the reasons for existing regulations and policies, but the reviewer feels, perhaps unjustifiably, that this is not enough, and that the facts and forces underlying public action are general facts and forces throughout the field of private industry, and necessary parts of a balanced picture of private industry, so that if one studies them solely, or even chiefly, from the standpoint of the *fait accompli* of public action he may easily miss the chief point.

Another contributing factor is the implication that consumption is the end and production the means, as conveyed by the fact that the general theory of human choices is treated in the chapter on consumption, and the chapter on production is focused on salable products. The latter chapter gives about one-eighth of its total space to "effects on the worker," and no space to all the other aspects of production which are ends in themselves, in that they affect human desires or social welfare directly and not through the medium of salable products. Should not the chapter on human choices have something to say in explanation of those later chapters, where the student finds the state interfering very freely with freedom to incur the disutilities of production but very gingerly with freedom of consumption? The authors refuse to recognize "productive consumption," save as coal, for example, is burned in a factory. They decline to treat consumption as a means to an end on the unconvincing ground that "man is our final term" (p. 133). True; but which man, and which part of his nature? Surely some parts of

consumption can be wisely and humanely treated as means to other human ends, including ends served via productive efficiency. And if some employers consider the consumption of their workers in order to exploit the resulting productive efficiency, that also is an economic fact. Man is means as well as end. He utilizes himself and is utilized by others.

In reading back over the book the reviewer came to the chapter on value and price, forgetting the preceding chapter on consumption, and concluded that the authors had cleverly included the valid working implications of the utility doctrine without committing themselves to the more doubtful formal analysis of marginal utility (which is also often a classroom stumbling-block). Then he turned back one chapter and was disillusioned, finding the marginal-utility formula faithfully included. At once the question suggested itself, if the chapter on price could stand alone, whether the material of the chapter on consumption could not have been almost entirely omitted and its place filled with a more realistic and concrete account of the organization, the machinery, and the forces by which people's choices are actually guided and determined in the world of business. Choices in matters of consumption and production both could be included, and the result would be a description of valuable activities (production) and underlying institutions, thus fitting into the proposed synthetic account of the organization of economic efforts.

Would the attempt to include such a synthesis swell a text beyond reasonable limits? The book is already overcrowded with material, and many important topics are injured by the compulsory brevity with which they are discussed. The question is a serious one and admits of two answers. One is that such a body of added material would break the course down, making it impossible to cover the necessary ground in the recognized topics. Another is that the attempt to include a view of general theory plus all the recognized special problems has already broken down, and that the proposed general synthesis would furnish a remedy, rather than aggravate the disease, by furnishing a substitute for the concrete discussion of special problems. It would carry the student into the fields of all the special problems and make him aware of their existence, not as semidetached topics but as parts of one large problem, and without tempting him to think that he knows the answer because he has read ten pages on social insurance in a text. It would not leave him with a memory stocked with classified lists of things that are done, and others perhaps that should be done, by various agencies—

by government enterprise, by co-operative societies, by labor unions, by legislation, or by administrative regulation, as the case may be—but perhaps it would leave him with something more valuable. It might give him a view of principles underlying all this parceling out of functions to different agencies to perform, aided by a study that is classified as far as possible by functions rather than by agencies. For example, the chapter on “Public Expenditures” and the chapter on “Production” in the present volume are two disconnected studies covering the same general function, but one covers such parts of that function as are handed over to the state in the present stage of development of American industrialism, while the other, nominally a general study, has chiefly in mind a limited (though large and important) part of the functions intrusted to private enterprise. There is room for much constructive imagination merely in describing and classifying functions in economic society along lines that are significant for current issues and for the possible evolutionary changes of the near future. In the absence of adequate organization on this basis the relatively easy and obvious classification according to agencies is bound to dominate. Can a general functional survey succeed in filling the place of the separate studies of “problems” in the modern text, and could not the special problems be more intelligently approached after some such synthetic survey of the field? The question can be answered only by the test of experience.

In the statement of the marginal economics there are some minor questions of accuracy that might be raised. On page 159 two curves are presented, one representing an elastic demand and the other an inelastic demand. The difference in the elasticity of the demand represented by the curves is too slight to be obvious to the unaided eye, and the conspicuous difference is a difference of absolute steepness, which is a mere matter of the total extent of the demand and might indeed be a mere matter of arbitrary choice of notation. On page 390 it is stated that a farmer gets maximum profits by carrying cultivation to the limit where the marginal product of labor is equal to the wages paid. Strictly speaking, such cultivation would give maximum profits per acre but not a maximum rate of profit on the total investment except in the limiting case where the rent of land absorbs all the surplus and profits are zero. If land could be had cheap enough to make possible a profit for this farmer, it would pay him to take more land into cultivation before he reached the point of zero profit on the marginal laborer. Akin to this is the statement that the employer “pushes each particular kind of expenditure up to the marginal point. If he is successful there will be a

surplus over and above his aggregate expenses." This might be true in certain special circumstances, but the typical case is one in which the successful employer can get maximum gain by apportioning his factors of production so as to make a profit on the marginal units of all of them. The best proportion of factors, financially, is that in which the marginal products of the different factors are *in proportion* to their unit costs, granted the customary assumptions of mobility and divisibility. Only by taking account of a fall in prices due to the expansion of the output of the single establishment, or of a loss in efficiency due to expanding the establishment past the limits of the manager's best organizing power, or of price discriminations, could a case be made in which a profit remains after the employment of every factor has been pushed to the point at which marginal return equals marginal outlay.

If one were to undertake the pleasant task of citing passages in which the treatment is so good as to invite special comment the list would be a long one, and this review would be unduly extended. If the review appears to be devoted chiefly to expressions of dissent, it is not for lack of appreciation of the good qualities of this excellent book but rather for the sake of raising certain general questions as to what an economics text should try to be.

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Financing of Public Service Corporations. By MILTON B. IGNATIUS.

New York: Ronald Press, 1918. Pp. xviii+508.

This book is the initial undertaking of the author. Its "mission is to point the way" to a common ground between bankers and corporation officials, who demand practical considerations, and the members of public-service commissions, who represent the public and deal with the fundamental principles of control, often considered theoretical. Instead of antagonism and wilful opposition between these two classes or points of view, there is essentially a community of interest. "Corporation finance has ceased to be a private affair," and there must be wise and judicious action over its supervision and regulation. Especially is this true with reference to the railroads under government control and operation. Even there we find a growing tendency to regulate industrial corporations. This suggests briefly the reasons given by the author for the appearance of this volume.

We are told in the Preface that this book is the result of experience in dealing with the financing of public-service corporations through